NTCA
NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION
The Voice of Rural Telecommunications
www.ntca.org

October 3, 2011

***Ex Parte* Notice**

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

***Connect America Fund*, WC Docket No. 10-90; *A National Broadband Plan for Our Future*, GN Docket No. 09-51; *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135; *High-Cost Universal Service Support*, WC Docket No. 05-337; *Developing* a *Unified Intercarrier Compensation Regime*, CC Docket 01-92; *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45; *Lifeline and Link-Up*, WC Docket No. 03-109**

Dear Ms. Dortch:

On Thursday, September 29, 2011, the undersigned from the National Telecommunications Cooperative Association ("NTCA") met with Christine Kurth, Policy Director and Wireline Counsel to Commissioner Robert McDowell, to discuss matters related to the above-referenced proceedings.

NTCA urged the Federal Communications Commission (the "Commission") to take prompt action to adopt the universal service fund ("USF") and intercarrier compensation ("ICC") reform plan (the "RLEC Plan") that NTCA had previously submitted in cooperation with 35 other national, regional, and state rural telecom associations in these proceedings. *See* Comments of NTCA, *et al*. (filed April 18, 2011), at 7-38 and Attachments A and C; *see also Ex Parte* filing of NTCA (filed May 26, 2011). NTCA contrasted this detailed plan against the proposals and assertions filed by others who continue largely to fall back upon sweeping policy arguments and provide little, if any, detail on the specific workings or consequences of their positions.

By reference to the attached materials, NTCA explained how the detailed RLEC Plan would work to achieve sustainable USF and ICC reform, and walked Ms. Kurth through the estimates, assumptions, and factors used in assessing potential impacts of the RLEC Plan. NTCA indicated how the RLEC Plan had been calibrated to help satisfy the Commission's reform objectives while also fulfilling the underlying statutory backdrop for universal service. NTCA highlighted, however, the delicate balance upon which these proposed reforms hang, and indicated how modifications made to the RLEC Plan – such as firm caps on funding adopted by rule and/or additional constraints beyond those already identified in the plan – would place small carriers,

the customers they serve, the lenders who enable such network deployment, and the very objective of universal service all at risk. NTCA further noted the arbitrary and capricious nature of "caps" that have no bearing to the statutory requirement for sufficiency in universal service funding and other mandates of the Communications Act. NTCA's positions on these points were consistent with those expressed in support of its plan in its April 18, 2011 comments in the above-referenced proceedings, as well as those positions stated in the comments and reply comments filed in response to the Commission's August 3, 2011 Public Notice. S*ee* Comments of NTCA, *et al*. (filed April 18, 2011), at 7-36, 61-74, and Appendices A and C; Comments of NTCA, *et al*. (filed August 24, 2011), at 21-32; Reply Comments of NTCA, *et al*. (filed Sept. 6, 2011), at 10-29.

NTCA indicated that the information provided in the attached materials regarding potential estimates and impacts of the RLEC Plan was based upon aggregate industry-wide assumptions. NTCA also explained the continuing efforts by it and other associations to work with individual companies and consultants to examine the mechanics of the RLEC Plan, as modified by the Consensus Framework. This further analysis is being used to help determine if any additional adjustment may (or might not) be required to implement the plan as designed, as well as to assess whether any adjustments or additional provisions may be necessary to moderate individual company impacts during the transition to the new CAF.

Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed via ECFS with your office. A copy of the materials provided in the meeting is attached hereto. If you have any questions, please do not hesitate to contact me at (703) 351-2016 or mromano@ntca.org.

Sincerely,

/s/ Michael R. Romano
Michael R. Romano

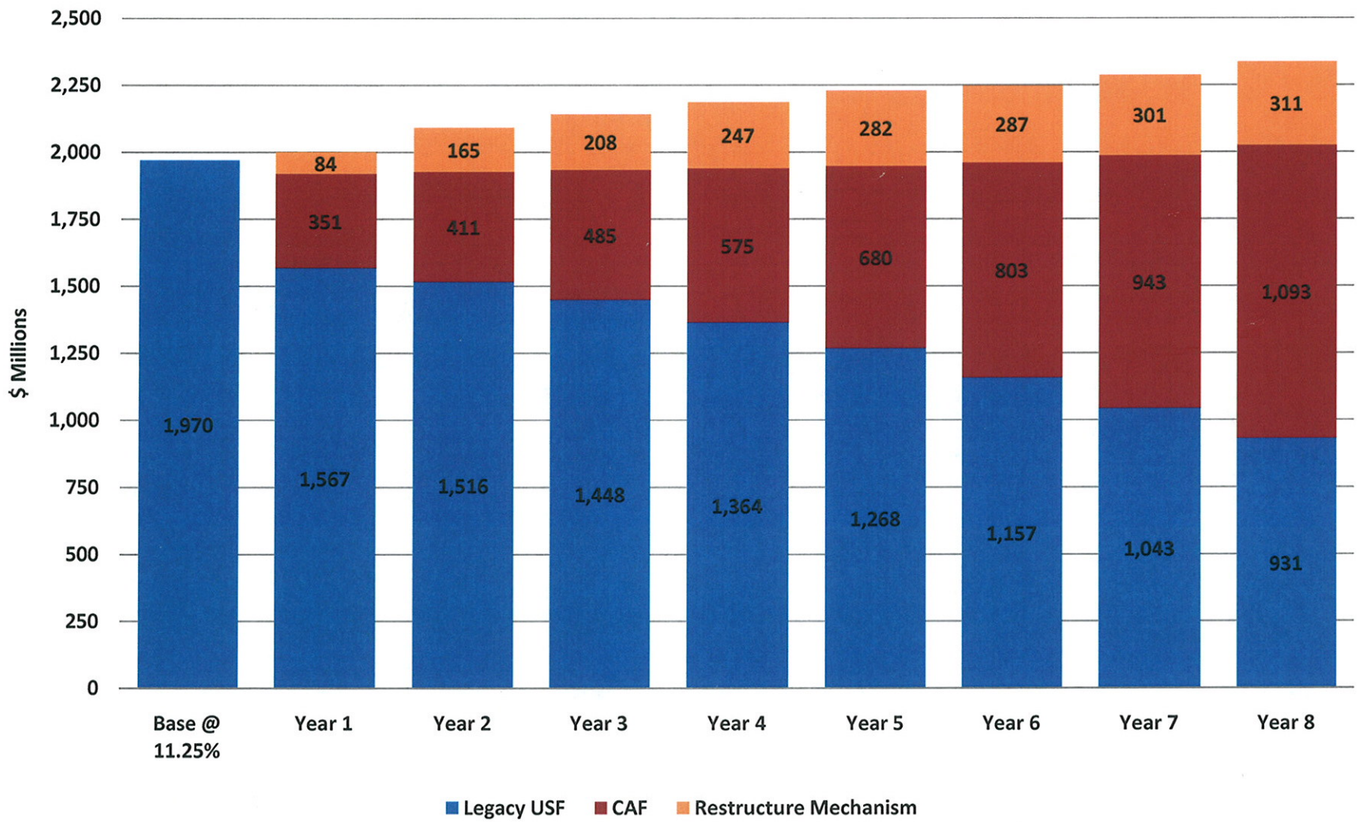
Senior Vice President - Policy

Enclosures

cc: Christine Kurth

*** WORK IN PROGRESS ***
*** SUBJECT TO CHANGE ***

Preliminary RLEC CAF + RM Computation



Note: Data reflects initial estimated levels of support based on aggregated study area totals and assumptions as explained on the accompanying Assumptions and Calculations document.

08/29/2011

Preliminary RLEC CAF Computations

Assumptions and Calculations

General Assumptions/Notes:

- Preliminary inputs and assumptions were developed for purposes of aiding estimation, investigation, analysis, and potential further resolution/modification. Any given input or assumption may be subject to change based upon the results of this further review and analysis.
- Calculations based on 709 cost company study areas participating in NECA's Common Line pool.
- Amounts are grossed-up to reflect all companies participating in NECA's CL pool (i.e., including average schedule companies). Factor for HC support = 1.1435.
- Revenue requirement data and additional loop costs based on 2009 cost studies recalculated at 10% rate of return.
- RLEC CAF calculation reflects corporate operations expense limitation.
- Additional loop costs assigned to interstate based on the broadband take rate are transitioned over 12 years and the broadband benchmark is adjusted accordingly.
- DSL line counts are as reported to NECA pooling for companies participating in NECA's DSL tariff.
- Whenever individual study area data is not available, NECA pool-wide averages are used.

Data Assumptions and Defaults:

- Interstate Revenue requirement (RRQ) amounts:
  - Sum of CL, SW, SP (excl DSL RRQ) and DSL RRQ
    - Includes the USF high cost loop corporate operations expense limitation and a capital expenditure limitation.
  - Default average annual growth projections:
    - CL RRQ=+2.2%;
    - SW RRQ = -3.0%;
    - SP RRQ (incl. DSL) = +4.9%;
    - LS RRQ = -3.3%;
    - LSS = -2.1%;
    - SLC revs and access lines = -4.7%
  - Special Access RRQ includes the DSL Access Service Connection Point (DSL ASCP) and the interconnection between the DSL ASCP and the ISP.
- Second mile costs are those costs included in the DSL RRQ. In the case of "naked DSL," the loop cost is also included in the DSL RRQ.
- Middle mile costs are estimated amounts for the costs of broadband transmission beyond the DSL connection point to the Internet backbone.
  - Default estimated amounts = $5.34 x broadband lines x 12 based on NECA pool average.
- Additional Loop Costs allocated to the interstate jurisdiction based on the difference between the study area's broadband take rate and the current gross allocator (i.e., 25%), subject to the 12 year transition.
- Broadband take rate = Broadband Lines/Total Access Lines.
  - Broadband lines assumed to equal DSL lines
  - Counts of "Naked DSL" lines should be included in both Total Access Lines and Broadband Lines.
  - Broadband take rate cannot exceed 100% by definition.

Preliminary RLEC CAF Computations

Assumptions and Calculations

- SLC revenues are based on currently effective subscriber line charges applied according to current FCC access charge rules.

Calculations:

- All calculations performed each year.
- Additional Loop Costs allocated to interstate based on the difference between the broadband take rate and the current gross allocator (i.e., 25%).
    - If broadband take rate is less than 25%, use 25% for cost allocation purposes resulting in no additional loop costs being allocated to interstate.
    - Results of the Additional Loop Cost allocation are transitioned over 12 years, i.e., increase in the additional loop allocation by 1/12 each year.
- Broadband RRQ is:
    - Sum of last mile, second mile, middle mile and related Internet connection costs for working broadband lines (including ADSL and naked DSL)
    - Calculated as: (CLRRQ x broadband take rate) + Transitioned Additional Loop Costs + Second mile (i.e., DSL RRQ)+ Middle Mile costs
- Study area benchmark is comprised of the sum of a fixed component and a variable component as follows:
    - Fixed component starts at $19.25 in year1, increasing for all study areas to $24.75 in year 8.
    - Study area variable component based on the study area's take rate. Starts at $6.50 and increases as the take rate increases (e.g., variable component at 25% take rate = $6.50; at 50% take rate = $13.00; at 75% take rate = $19.50).
        - Variable component transitioned over 12 year period. For example, if year 1 take rate is 50%, year 1 variable component would be $6.50 base amount plus 1/12 of additional $6.50 = $6.50 + $0.54 = $7.15; total year 1 benchmark would be $19.25 + $7.15 = $26.40.

Support Calculations:

- Broadband transmission component = (Broadband RRQ per broadband line per month - study area benchmark) x broadband lines x 12 to annualize.
    - Broadband RRQ per broadband line (per month) = Broadband RRQ / Broadband lines / 12
- Grandfathered support = difference between the amount of HCL+SNA+SV support and Transitioned Additional Loop Costs included in Broadband Transmission Component of the CAF. For example, if the HCL amount is $120 and the additional loop costs included in the CAF is $100, grandfathered HCL will be $20 ($120 - $100).
- ICLS is calculated using voice-only components of CL revenue requirement and SLC revenues = (CL RRQ x (1-broadband take rate)) - (SLC Revenues x (1-broadband take rate).
- Local Switching Support, High Cost Loop Support, Interstate Common Line Support, Safety Net Additive and Safety Valve Support are calculated or estimated according to current rules.

RLEC Restructure Mechanism (RM) Calculation

Overview

The RM is designed to recover revenue losses as a result of capping interstate originating and terminating switched access rates at the start of access reform as well as revenue losses caused by reducing terminating access rates to targeted levels in three phases. In Phase I intrastate terminating switched access rates[1] are reduced to capped interstate rate levels in two steps.[2] In Phase II, terminating end office rates[3] are reduced to $.005 per minute in three steps. In Phase III, subject to FCC review in year 5, terminating end office rates are further reduced to $.0007 per minute in three steps. Transport and tandem switching rates remain unchanged at capped interstate rate levels.

Calculation of Revenue Shortfalls

The interstate revenue shortfall is the difference between interstate revenue requirements (RR) in a given step and Local Switching Support (LSS) plus the revenue produced by capped or targeted interstate switched access rates in that step applied to actual demand for that step (year). The revenue loss attributable to capping (i.e., there is no upward adjustment in rates levels to reflect the fact that billable minutes are declining faster than revenue requirements) applies to originating and terminating interstate minutes in steps one through eight. Interstate switched access revenue requirements are adjusted annually based on expected cost study results for the company and reflect a 10% rate of return (RoR). The revenue loss attributable to targeting rates in Phases II and III, steps three through eight, applies only to terminating end office rates.

The intrastate revenue shortfall is calculated in a similar manner to the interstate revenue shortfall by calculating the difference between intrastate terminating switched access revenue requirements in a given step and the revenue produced by targeted intrastate switched access terminating rates applied to actual demand in that step plus net reciprocal compensation revenue[4] in that step. Since intrastate terminating revenue requirement is not available, base year switched access terminating revenue plus net reciprocal compensation revenue is used as a surrogate for revenue requirement.[5] The base year

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[1] Includes local switching, information surcharge, tandem switching, local transport (both common and dedicated). Intrastate CCL rates are added to intrastate LS rates and the intrastate transport rate structure is conformed to the interstate rate structure where required at the beginning of step 1.

[2] A step is equivalent to a one year period. The current view is that the first step would begin on July 1, 2012 coincident with the effective date of the 2012 Annual Tariff Filing. On that date intrastate rates would be decreased by one half of the difference between the intrastate rates and the interstate rates. On July 1, 2013, the intrastate rates would be further decreased to the interstate rate levels. The first step of Phase II would be implemented on July 1, 2014, i.e., terminating end office rates would be reduced by one third of the difference between existing interstate terminating end office rates and $.005.

[3] End office rates defined as local switching and information surcharge.

[4] Net reciprocal compensation revenue is defined as the difference between reciprocal compensation revenue received from other carriers and reciprocal compensation expense paid out to other carriers. Since existing reciprocal compensation rates are a composite of end office and transport, a weighted average of terminating switched access end office rates and terminating transport rates would be calculated for each study to compare to the reciprocal compensation rate. If the reciprocal compensation rate is higher than the weighted average access rate, it is reduced to that level(subject to change of law clause); if it is lower, there is no change to the reciprocal compensation rate.

[5] The base year terminating revenue requirement is developed using the company specific base year terminating/originating ratio. The intrastate terminating revenue requirement is adjusted on a going forward basis

revenue requirement is adjusted each year by the percentage change in interstate switched access revenue requirement for the company. The intrastate revenue shortfall results from reducing intrastate terminating rates to interstate levels in Phase I and further reducing terminating end office rates to targeted levels in Phases II and III.

Calculation of RM

The total revenue shortfall is the sum of the intrastate and interstate revenue shortfalls. It is important to distinguish between the two revenue shortfalls because they have different effects on the RM calculation. The RM is calculated by offsetting the combined revenue shortfalls by increases in subscriber line charge (SLC) revenue. Intrastate regulated earnings test applies only to the intrastate revenue shortfall.

Any study area with a residential rate below the $25 local rate benchmark,[6] must increase (or impute) its monthly residential SLC rate by $.75 per year to reach the benchmark, subject to a maximum of six increases of $.75 or $4.50. Additional SLC revenues are used to offset the intrastate component of the RM first. If additional SLC revenues in a given step exceed the intrastate RM, the SLC revenue in excess of the intrastate RM is then used to offset the interstate component of the RM.

An intrastate regulated earnings test is performed using a 10% rate of return (RoR) each year using FCC Part 32 and 36 rules. Earnings in excess of a 10% RoR for that year will be used to offset the intrastate component of the RM calculated for that year after the SLC revenue offset has been taken into account.

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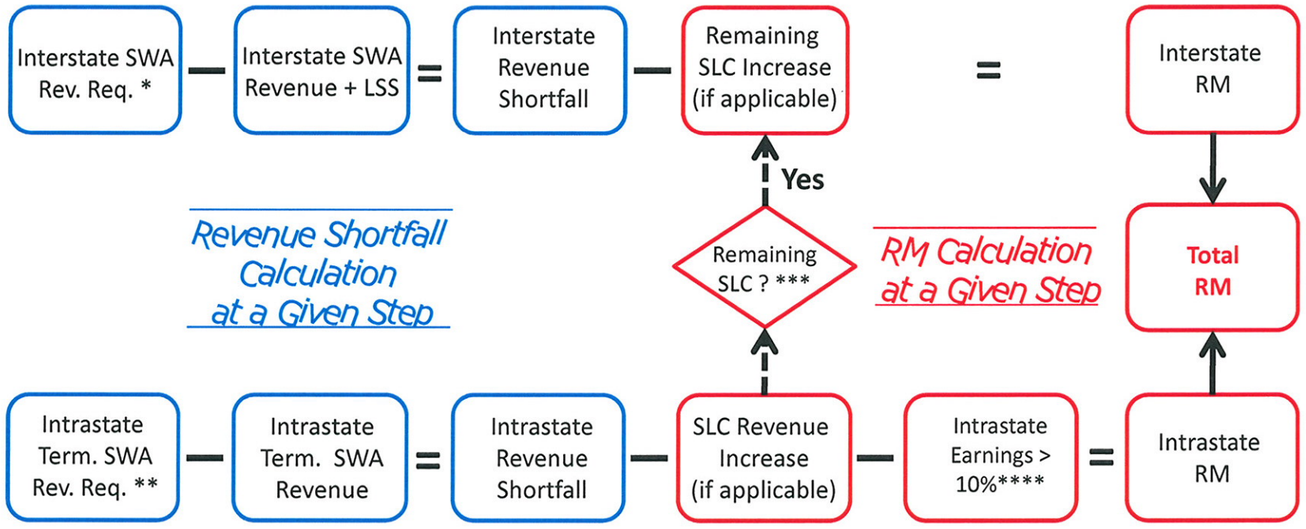
by the overall percent change in interstate switched access revenue requirement, i.e., the terminating/originating ratio is not recalculated each year.

[6] Local rate benchmark includes residential basic local exchange rate, intrastate and interstate SLCs, mandatory EAS, and state USF per line.

Consensus Plan
RLEC Plan Modifications



* Interstate rev. req. adjusted annually. Calculated using a 10% RoR.

** Since intrastate terminating rev. req. is not available, base year terminating rev. req. = base year SWA terminating intrastate revenue plus net reciprocal compensation revenue (difference between reciprocal compensation revenue received from other carriers and the reciprocal compensation paid out to other carriers). The base year rev. req. is then adjusted each year by the percent change in interstate rev. req. for that company.

*** Increases in SLCs for a given year (where required) would first go to offset intrastate RM. To the extent that SLC increases in a given step exceed the intrastate RM, the excess SLC increase would offset the interstate RM.

**** An intrastate regulated earnings test is performed using a 10% RoR each year using FCC part 32 and 36 rules. Earnings in excess of 10% for that year will be used to offset the intrastate component of the RM calculated for that year.

COMPANY : Company ABC

SAC: #####

Intrastate Earnings Calculation			***TOTAL REGULATED INTRASTATE***
1	Total Rate Base	*Input*	$ 2,400,000
2	Return on Rate Base		10.00%
3	Net Operating Income	*line 1 * line 2*	$ 240,000
4	State & Fed Income Taxes	*Input*	$120,938
5	Operating Expenses and Other Taxes	*Input*	$1,070,000
6	Intrastate Rev. Req. @ 10%	*line 3+line 4+Line 5*	$1,430,938
7	Intrastate Revenue	*Input*	1,250,000
8	Revenue Surplus/(Deficiency)	*line 6 - line 7*	(180,938)

RLEC Rule Revisions for USF/ICC Reform – Initial List

ICC Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
NPRM Section XV Proposals		
1.0	**VoIP**	
1.1	Confirm access charges apply to VoIP and other services utilizing the PSTN regardless of technology.	▪ 69.5(b) Persons to be Assessed
1.2	Rate interexchange IP calls as interstate regardless of whether calls originate and terminate in same state.	▪
		▪ 69.2 Definitions
2.0	**Phantom Traffic**	
2.1	Require all providers (not just carriers) to conform to Call Signaling Rules	▪ 64.1600 et seq.
2.2	Require provision of "true" CPN and other data in signaling stream; make clear CPN must be for customer originating the call not "platform" or other intermediate switches.	▪ 64.1600 et seq.
2.3	Require provision of carrier or provider identification in the signaling stream	▪ 64.1600 et seq.
2.4	Require transmission of all information by intermediate carriers – no stripping or altering data.	▪ 64.1600 et seq.
2.5	Authorize use of telephone numbers as default mechanism to determine jurisdiction of calls.	▪ 64.1600 et seq.
2.6	Enforcement provisions	▪ 64.1600 et seq.
2.7	Routing provisions	▪ 64.1600 et seq.
2.8	Provisions to allow ILECs to demand interconnection agreements with CLECs	▪ Part 51 (Interconnection Rules)

RLEC Rule Revisions for USF/ICC Reform – Initial List

ICC Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
3.0	**Access Stimulation**	
3.1	Establish MOU Trigger to re-file tariffs	▪
		▪

RLEC Rule Revisions for USF/ICC Reform – Initial List

ICC Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
	Rate Unification	
4.0	**Scope of FCC Access Charge Rules**	
4.1	Extend application of Part 69 Rules to all interexchange telecommunications.	▪ 69.1, other sections.
5.0	**Mirroring Interstate Rate Structures (Applicable if tariffs continue to be filed in intrastate jurisdiction)**	
5.1	Establish intrastate mirroring of interstate switched access rate structures.	▪ 69.1 (Application) ▪ 69.3 (Filing of Access Service Tariffs) ▪ 69.4 (Charges to be Filed)
5.2	Mirroring of Interstate switched access rate changes	▪ 69.3 (Filing of Access Service Tariffs)
5.3	Eliminate intrastate CCL Charges	▪ 69.3
6.0	**Capping Interstate Originating & Terminating Rates**	
6.1	Cap interstate originating and terminating switched access rates.	▪ 69.106 (Local Switching) ▪ 69.108 (Transport Rate Benchmark) ▪ 69.109 (Information) ▪ 69.110 (Entrance Facilities) ▪ 69.111 (Tandem-Switched Transport & Tandem Charge) ▪ 69.112 (Direct-trunked Transport)
7.0	**Phase-Down of Intrastate & Interstate Terminating Rates**	
7.1	Phase 1: transition terminating intrastate switched access rates to interstate levels in two steps.	▪ 69.106 (Local Switching) ▪ 69.108 (Transport Rate Benchmark) ▪ 69.109 (Information) ▪ 69.110 (Entrance Facilities) ▪ 69.111 (Tandem-Switched Transport & Tandem Charge) ▪ 69.112 (Direct-trunked Transport)

ICC Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
7.2	Phase 2: transition terminating end office charges to $0.005/minute in three annual steps beginning in year three.	▪ 69.106 (Local Switching) ▪ 69.109 (Information)
7.3	Phase 3: transition terminating end office charges to $0.0007 in three annual steps beginning in year six.	▪ 69.106 (Local Switching) ▪ 69.109 (Information)
7.4	Limitations on rate reductions due to funding shortfalls	▪ 69.106 (Local Switching) ▪ 69.108 (Transport Rate Benchmark) ▪ 69.109 (Information) ▪ 69.110 (Entrance Facilities) ▪ 69.111 (Tandem-Switched Transport & Tandem Charge) ▪ 69.112 (Direct-trunked Transport)
8.0	**Reciprocal Compensation Rate Adjustments**	
8.1	Apply rate transitions to reciprocal compensation rates at appropriate step.	▪ Part 51 (Interconnection Rules)
9.0	**Rural Transport Rule**	
	Limit obligations of RLECs to transport originating traffic beyond existing meet-points (similar to Missoula Plan approach).	

Restructure Mechanism		
10.0	**Increases in End-User SLCs Up to Benchmark**	
10.1	Establish a six year schedule for increases of Monthly interstate SLC charges of $0.75 each year (not to exceed $25 residential benchmark)	69.104 End User Common Line)
11.0	**Calculation of RM Amounts**	

ICC Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
11.1	Calculation of Restructure Mechanism funding amounts	▪ 54, new Subpart L
12.0	**Shift Intrastate RM Revenue Requirements to Interstate for Recovery via Federal mechanism**	
12.1	Establish expense adjustment-type mechanism to shift costs associated with foregone intrastate revenues to interstate jurisdiction for recovery via RM.	Part 36
13.0	**Intrastate Earnings Test at 10% Rate of Return**	
13.1	Limit RM support based on application of earnings test at 10% rate of return to intrastate regulated operations.	▪ 54.xxx
13.2	Data Submission for Earnings Test	▪ 36.611

Rule Revisions for USF/ICC Reform – Initial List

USF Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
Constraints on Capital Expenditure and Operating Expense Expenditures		
14.0	**Limit Recovery of Capital Investment Based on Depreciation Percentages**	
14.1	Modify loop cost to recognize limitation on annual investment growth consistent with Vantage Point proposal filed by rural associations.	▪ 36.621(a) for HCL ▪ 36. Xxx for Common Line ▪
14.2	Eliminate HCL Quarterly Updates	36.612 (delete section)
15.0	**Extension of Current Cap on Recovery of Corporate Operations Expenses in HCL to Other Programs**	
15.1	Modify the corporate operations expense assignment for interstate revenue requirements to mirror the limitation for HCL support. (limitations amounts remain in intrastate jurisdiction)	▪ 36.392 ▪
		▪
CAF Implementation		
16.0	Define Connect America Fund (CAF) for Rural Rate of Return Carriers.	▪ 54.5
		▪
17.0	**Calculation of Rural Broadband Network Transmission Costs (RBNTC)**	
17.1	Establish procedures for calculating RBNTC based on today's costs.	▪ New part 54.1103 ▪ 36.154 ▪ 69.501
17.2	Add definitions as needed.	▪ 54.5
18.0	**Establish CAF Benchmarks**	
18.1	Rules establishing fixed and variable CAF benchmarks	▪ 54.1103(c)
19.0	**Calculation of CAF Amounts**	

Rule Revisions for USF/ICC Reform – Initial List

USF Reform for Rate of Return Companies		
No.	**Change Description**	**Potential Rule Impacts**
19.1	Rule establishing support payments	▪ 54.1103(d)
	Rule modifying ICLS for CAF transition	▪ 54.901 and 54.1103(e)
20.0	**Assign Loop Costs to Interstate**	
20.1	Shift loop costs currently assigned to interstate common line and intrastate CL to new Broadband category for recovery via CAF. Also modify the separations rules so as to gradually increase last-mile interstate cost allocations based on broadband adoption rates, transitioned in over twelve years.	▪ 36.154
	Modify HCL calculation to subtract costs shifted from intrastate to interstate	▪ 36.631
21.0	**Administrator Submits Reports to FCC Projecting Growth of RM/CAF Fund Levels**	
21.1	Require USAC to submit reports to FCC projecting growth of RM and CAF.	▪ 54.702 (h)(1)
21.2	If RM or CAF projections exceed targeted levels, FCC initiates rulemaking proceeding.	▪ 54. 702 (h)(1)

RLEC RM Price-out by State and Interstate Component
($ in millions)

	Phase I		Phase II			Phase III		
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8
Intrastate RM	$66.6	$132.9	$138.4	$145.3	$152.9	$147.5	$150.5	$153.0
Interstate RM	$16.9	$32.1	$69.6	$101.3	$129.0	$139.7	$150.1	$158.3
Total RM	$83.6	$165.0	$208.0	$246.6	$281.9	$287.2	$300.5	$311.3

Notes:

1. In phase I intrastate terminating switched access rates are reduced to capped interstate rate levels in two steps (Yr 1 and Yr 2) . In phase II, terminating end office rates are reduced to $.005 per minute in three steps (Yr 3 through Yr 5). In phase III, terminating end office rates are further reduced to $.0007 per minute in three steps (Yr 6 through Yr 8). Transport and tandem switching rates remain unchanged at capped interstate rate levels.
2. Net reciprocal compensation revenue is included and defined as the difference between reciprocal compensation revenue received from other carriers and reciprocal compensation expense paid out to other carriers.
3. A $25 local rate benchmark is used. It includes residential basic local exchange rate, intrastate and interstate SLCs, mandatory EAS, and state USF per line.
4. Additional SLC revenue is calculated by increasing monthly residential SLC rate by $.75 per year to reach the $25 benchmark, subject to a maximum of six increases of $.75 or $4.50.
5. Calculation of Intrastate revenue shortfall and RM:
    - 5a. Base year switched access terminating intrastate revenue plus net reciprocal compensation revenue is used as a surrogate for intrastate revenue requirement and adjusted by -2.99% annual growth.
    - 5b. Intrastate shortfall is calculated as the difference between intrastate terminating switched access revenue requirements in a given step and the revenue produced by targeted intrastate switched access terminating rates applied to actual demand in that step plus net reciprocal compensation revenue in that step. Actual demand is estimated by using a -8% growth in MOU.
    - 5c. Intrastate RM is calculated as the intrastate shortfall minus additional SLC revenue minus intrastate earnings offset for companies with more than 10% intrastate RoR.
6. Calculation of Interstate revenue shortfall and RM:
    - 6a. Interstate revenue requirement is adjusted by -2.99% annual growth.
    - 6b. Interstate shortfall is calculated as the difference between interstate revenue requirements less LSS in a given step and the revenue produced by capped or targeted interstate switched access rates in that step applied to actual demand for that step. Actual demand is estimated by using a -8% growth in MOU.
    - 6c. Interstate RM is calculated as the interstate shortfall minus additional SLC revenue in excess of the intrastate shortfall.

RLEC-Specific USF and ICC Reform Proposal

Step One: Implement short-term ICC reform measures that confirm intercarrier compensation is due for all traffic originating from or terminating to the PSTN regardless of technology, address "phantom traffic" problems, and deter artificial and uneconomic traffic stimulation.

> ***UPDATE FOR CONSENSUS PLAN:*** *VoIP would pay interstate access to start and then transition with other rates; phantom traffic rules would preclude the use of intermediate numbers to disguise a toll call as local for purposes of avoiding access charges.*

Step Two: Effective January 1, 2012, implement short-term USF Reform measures on a prospective basis.

- Impose a limitation on recovery of prospective RLEC capital expenditures based on analyses of booked study area costs, to determine the portion of a carrier's loop plant that has reached the end of its useful life.
- Cap recovery of corporate operations expenses by applying the current HCL corporate operations expense cap formula to all federal high cost support programs.

> ***UPDATE FOR CONSENSUS PLAN:*** *No change.*

Step Three: Promptly encourage States to move intrastate originating and terminating access rates for rural ROR carriers to interstate levels, by using incremental federal CAF funding (i.e., a compensatory restructure mechanism) in conjunction with a federal local service rate benchmark for access rebalancing.

> ***UPDATE FOR CONSENSUS PLAN:***
>
> - *Interstate originating and terminating access rates would be capped.*
> - *Intrastate terminating access rates only would be unified for RLECs at interstate levels in 2 steps (including all transport and all switching). Any Intrastate Carrier Common Line (CCL) will be added to the Intrastate Local Switching rates prior to rate reductions.*
> - *In steps 3 to 5, terminating local switching rates only would be reduced to $0.005 per minute in 3 equal installments for RLECs. Transport and tandem switching for RLECs would remain at the interstate levels.*
> - *In steps 6 to 8, terminating local switching rates only would be reduced to $0.0007 per minute in 3 equal installments for RLECs. Transport and tandem switching for RLECs would remain at the interstate levels.*
> - *The federal local service rate benchmark would be $25, reached by $0.75 SLC increases (which may be imputed) for up to 6 years (or less once $25 is reached).*
> - *There would be no rate reductions at a given step if there is insufficient support funding.*
> - *There would be a regulated intrastate earnings test to ensure that any company earning more than 10% on intrastate regulated operations has the intrastate portion of its restructure mechanism reduced to the extent it is in excess of 10%.*

- *There would be a "rural transport rule" to help protect RLECs from having to transport originating traffic without financial compensation therefor beyond existing meet-points that are located within RLEC wire center boundaries.*

Step Four: Design and implement an RLEC-specific CAF mechanism designed to re-focus existing RLEC USF support on broadband. Support under existing high-cost mechanisms including HCLS and ICLS decline as broadband-focused support phases in.

1. Start with today's interstate revenue requirements.
2. Add support for "Middle Mile" facilities.
3. Revise the separations rules so as to gradually increase last-mile interstate cost allocations based on each company's individual broadband adoption rates, transitioned in over a series of years.
4. Compute RLEC CAF broadband funding amounts by subtracting the product of an urban broadband transmission cost benchmark times broadband lines in service, from actual RLEC network broadband transmission costs. Broadband transmission costs include last mile, second mile, middle mile and Internet connection costs.
5. Recover remaining interstate costs (i.e., those not recovered via RLEC CAF support, transitional ICLS, and current LSS or its CAF replacement) via a combination of end user and other customer charges. These would include today's SLCs, switched access charges (to the extent these charges continue to apply under ICC reform), and special access charges, including charges for wholesale broadband services.

UPDATE FOR CONSENSUS PLAN: *No changes except:*

- *The interstate rate-of-return would be reset from 11.25% to 10%.*
- *Incremental broadband build-out commitments would need to be tied to an individual RLEC's ability to receive incremental USF/CAF support for new investment based upon the capital investment constraints and "budget targets" adopted by the FCC.*

Post-Implementation: Following initial implementation of the RLEC Reform Plan, the Commission should revisit results and consider the need for further modifications in 3 to 5 years.

UPDATE FOR CONSENSUS PLAN: *No changes except:*

- *There would be no firm cap by rule, but the plan as modified would be calibrated to aim for a "budget target" of $2.05B in combined USF and restructure mechanism support in year 1, and to grow to $2.3B in combined USF and restructure mechanism support by year 6.*
- *After 6 years, there would be no set budget for USF unless the FCC sets a new one – and the FCC would have to find first that any new budget limit is in fact "sufficient" under the Communications Act. Instead, the USF would revert to simply ensuring that sufficient support is available based upon the requirements of "universal service" irrespective of a specific budget target.*
- *AT&T and Verizon would defer certain USF funding per their model to satisfy RLEC or other carrier USF/restructure mechanism needs during the budget period.*

Preliminary RLEC CAF Computation
NECA CL Cost Companies Only
($ in millions)

WORK IN PROGRESS

Ln		Base @ 11.25%	RRQ Calculated @ 10% ROR Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
1	Current Interstate Revenue Requirement	$ 1,923.0	$ 1,873.5	$ 1,898.0	$ 1,925.3	$ 1,955.6	$ 1,988.7	$ 2,024.7	$ 2,063.7	$ 2,105.6
2	Middle Mile Revenue Requirement	$ -	$ 91.9	$ 96.9	$ 102.2	$ 107.9	$ 113.8	$ 120.1	$ 126.7	$ 133.6
3	Additional Loop Costs Based @ Take Rate	$ -	$ 39.7	$ 92.9	$ 161.0	$ 245.9	$ 348.4	$ 470.7	$ 613.9	$ 778.3
4	Interstate Rural CAF Components:									
	a. Broadband Transmission Component	$ -	$ 306.7	$ 359.4	$ 424.4	$ 502.8	$ 595.0	$ 702.5	$ 825.3	$ 956.8
	b. LSS component	$ 204.7	$ 199.7	$ 195.3	$ 191.0	$ 186.7	$ 182.5	$ 178.3	$ 174.2	$ 170.2
	c. Transitional ICLS component	$ 709.3	$ 408.6	$ 415.3	$ 419.3	$ 420.6	$ 419.0	$ 414.4	$ 406.4	$ 395.1
5	Interstate RRQ Recoverable through rates	$ 1,009.0	$ 1,090.1	$ 1,117.8	$ 1,153.8	$ 1,199.3	$ 1,254.4	$ 1,320.3	$ 1,398.4	$ 1,495.4
6	Grandfathered HCL Support (incl. SNA and SV)	$ 808.8	$ 762.0	$ 715.0	$ 656.5	$ 586.2	$ 507.4	$ 419.8	$ 332.3	$ 249.9
7	Total Support (Sum of Lns 4a, 4b, 4c and 6)	$ 1,722.8	$ 1,677.0	$ 1,685.0	$ 1,691.2	$ 1,696.3	$ 1,703.9	$ 1,715.0	$ 1,738.2	$ 1,772.0
8	Current Support (HCL+LSS+ICLS+SNA+SV)	$ 1,722.8	$ 1,722.8	$ 1,722.8	$ 1,722.8	$ 1,722.8	$ 1,722.8	$ 1,722.8	$ 1,722.8	$ 1,722.8
	a. Difference (Ln 7 - Ln 8)	$ -	$ (45.8)	$ (37.8)	$ (31.6)	$ (26.5)	$ (18.9)	$ (7.8)	$ 15.4	$ 49.2
9	Average Benchmark values	$ -	$ 26.06	$ 27.21	$ 28.46	$ 29.80	$ 31.27	$ 32.86	$ 34.58	$ 36.69
	a. Fixed component	$ -	$ 19.25	$ 20.00	$ 20.75	$ 21.50	$ 22.25	$ 23.00	$ 23.75	$ 24.75
	b. Variable line component	$ -	$ 6.81	$ 7.21	$ 7.71	$ 8.30	$ 9.02	$ 9.86	$ 10.83	$ 11.94
10	Average Take Rate		39.0%	41.2%	43.4%	45.8%	48.4%	51.0%	53.8%	56.8%

Notes/Calculations:

General:

- Calculations based on 709 cost company study areas participating in NECA's CL pool (2009 cost studies)
- Default annual growth projections: CL RRQ=+2.2%; SW RRQ = -3.0%; SP RRQ (incl. DSL) = +4.9%; LS RRQ = -3.3%; State/Local RRQ = +0.4%; LSS = -2.1%; SLC revs & Access Lines = -4.7%

Ln	Description
1	Interstate RRQ = sum of CL, SW and SP RRQ, including corporate operations expense limitation
2	Middle mile RRQ = $5.34 x broadband lines x 12
3	Add'l Loop Costs based on Broadband Allocation Factor (study area factor increase above current 25%); transitional impact over 12 years, i.e., increase loop allocation 1/12 each year.
4a	Broadband transmission component = (Broadband cost per broadband line - benchmark) x broadband lines Broadband cost per line = (last mile + second mile + middle mile) / broadband lines / 12 Last mile = (CL RRQ in Ln1 x take rate) + Additional Loop Costs (Ln 3); Second mile = DSL RRQ; Middle mile = Ln 2
4b	Current LSS ; limited to local switching revenue requirement
4c	Calculated using voice-only components of CL revenue requirement and SLC revenues = (CL RRQ in Ln1 x (1-take rate)) - SLC Revs x (1-take rate)
5	Sum of lines 1 to 3 minus sum of lines 4a to 4c
6	Grandfathered support = difference between the amount of current HCL+SNA+SV support and Additional Loop Costs (Ln 3) included in Broadband Transmission Component (Ln 4a)
9	Study area benchmark is comprised of a fixed non-line component starting at $19.25 in year 1 increasing for all study areas to $24.75 in year 8, plus a study area variable line component that is based on the study area's take rate, e.g., line component at 25% take rate = $6.50, at 50% take rate = $13, at 75% take rate = $19.50 transitioned over 12 year period.

09/09/2011

Preliminary RLEC CAF Computation
Study Area Calculation Template

WORK IN PROGRESS

DATA INPUTS

	Base @11.25	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
CL RRQ	$ 1,750,000	$ 1,800,000	$ 1,900,000	$ 2,000,000	$ 2,100,000	$ 2,200,000	$ 2,300,000	$ 2,400,000	$ 2,500,000
SW RRQ	$ 867,000	$ 848,000	$ 796,000	$ 747,000	$ 702,000	$ 658,000	$ 218,000	$ 580,000	$ 544,000
SP RRQ (excl. DSL)	$ 128,000	$ 125,000	$ 131,000	$ 138,000	$ 145,000	$ 152,000	$ 160,000	$ 167,000	$ 176,000
DSL RRQ	$ 425,000	$ 415,000	$ 435,000	$ 455,000	$ 480,000	$ 505,000	$ 530,000	$ 560,000	$ 585,000
Interstate RRQ	$ 3,170,000	$ 3,188,000	$ 3,262,000	$ 3,340,000	$ 3,427,000	$ 3,515,000	$ 3,208,000	$ 3,707,000	$ 3,805,000
Middle mile RRQ		$ 164,000	$ 167,000	$ 173,000	$ 179,000	$ 186,000	$ 192,000	$ 200,000	$ 205,000
Access Lines	5,000	4,900	4,850	4,800	4,750	4,725	4,700	4,675	4,650
DSL Lines	2,550	2,550	2,600	2,700	2,800	2,900	3,000	3,100	3,200
SLC revenues	$ 400,000	$ 392,000	$ 384,000	$ 376,000	$ 368,000	$ 360,000	$ 352,000	$ 344,000	$ 336,000
Broadband Take Rate		52.04%	53.61%	56.25%	58.95%	61.38%	63.83%	66.31%	68.82%
Additional Loop Costs Based on Take Rate		$ 1,800,000	$ 2,025,000	$ 2,285,000	$ 2,400,000	$ 2,600,000	$ 2,800,000	$ 3,100,000	$ 3,350,000
Broadband RRQ		$ 1,665,735	$ 1,958,057	$ 2,324,250	$ 2,696,895	$ 3,124,598	$ 3,590,085	$ 4,159,777	$ 4,743,763
Local Switching Support	$ 360,000	$ 350,000	$ 335,000	$ 320,000	$ 305,000	$ 290,000	$ 275,000	$ 260,000	$ 245,000
High Cost Loop	$ 2,700,000	$ 2,600,000	$ 2,470,000	$ 2,350,000	$ 2,275,000	$ 2,225,000	$ 2,175,000	$ 2,000,000	$ 1,975,000
Safety Net Additive	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Safety Valve Support	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interstate Common Line Support	$ 1,350,000	$ 1,408,000	$ 1,516,000	$ 1,624,000	$ 1,732,000	$ 1,840,000	$ 1,948,000	$ 2,056,000	$ 2,164,000
Study Area Benchmark Value (calculated)	$ -	$ 26.34	$ 27.74	$ 29.28	$ 30.94	$ 32.69	$ 34.55	$ 36.52	$ 38.84
Study area variable line component (calculated)	$ -	$ 7.09	$ 7.74	$ 8.53	$ 9.44	$ 10.44	$ 11.55	$ 12.77	$ 14.09
Study area fixed non-line component	$ -	$ 19.25	$ 20.00	$ 20.75	$ 21.50	$ 22.25	$ 23.00	$ 23.75	$ 24.75

CALCULATIONS

Ln		Base Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
1	Current Interstate Revenue Requirement	$ 3,170,000	$ 3,188,000	$ 3,262,000	$ 3,340,000	$ 3,427,000	$ 3,515,000	$ 3,208,000	$ 3,707,000	$ 3,805,000
2	Middle Mile Revenue Requirement		$ 164,000	$ 167,000	$ 173,000	$ 179,000	$ 186,000	$ 192,000	$ 200,000	$ 205,000
3	Additional Loop Costs @ Take Rate		$ 150,000	$ 337,500	$ 571,250	$ 800,000	$ 1,083,333	$ 1,400,000	$ 1,808,333	$ 2,233,333
4	Interstate Rural CAF Components:									
	a. Broadband Transmission Component		$ 859,857	$ 1,092,578	$ 1,375,538	$ 1,657,240	$ 1,986,962	$ 2,346,362	$ 2,801,405	$ 3,252,116
	b. LSS component	$ 360,000	$ 350,000	$ 335,000	$ 320,000	$ 305,000	$ 290,000	$ 275,000	$ 260,000	$ 245,000
	c. Transitional ICLS component	$ 1,350,000	$ 675,265	$ 703,299	$ 710,500	$ 711,032	$ 710,688	$ 704,596	$ 692,663	$ 674,796
5	Interstate RRQ Recoverable through rates	$ 1,460,000	$ 1,616,878	$ 1,635,623	$ 1,678,213	$ 1,732,728	$ 1,796,684	$ 1,474,043	$ 1,961,265	$ 2,071,422
6	Grandfathered HCL Support (incl. SNA and SV)	$ 2,700,000	$ 2,450,000	$ 2,132,500	$ 1,778,750	$ 1,475,000	$ 1,141,667	$ 775,000	$ 191,667	$ -
7	Total Support (Sum of Lns 4a, 4b, 4c and 6)	$ 4,410,000	$ 4,335,122	$ 4,263,377	$ 4,184,788	$ 4,148,272	$ 4,129,316	$ 4,100,957	$ 3,945,735	$ 4,171,912

09/09/2011

Preliminary RLEC CAF Computation
Study Area Calculation Template

WORK IN PROGRESS

Data Inputs Instructions:

1 Amounts in shaded cells are for input and should reflect best estimates of study area specific operations and growth characteristics. Base year amounts and current support should be calculated at 11.25% ROR; Year 1 to 8 revenue requirements and proposed support should be calculated at 10% ROR. NOTE: none of the cells have been "protected", giving you the opportunity to do other "what-if" calculations on the preliminary RLEC CAF computations. However, doing so will produce results different from the main model.

2 Interstate Revenue requirement (RRQ) amounts = sum of CL, SW, SP (excl DSL) and DSL RRQ; amounts should include the corporate operations expense limitation and estimate of capital expenditure limitation. Default average annual growth projections: CL RRQ=+2.2%; SW RRQ = -3.0%; SP RRQ (incl. DSL) = +4.9%; LS RRQ = -3.3%; LSS = -4.2%; SLC revs = -4.7%

3 Special Access RRQ includes the DSL Access Service Connection Point (DSL ASCP) and the interconnection between the DSL ASCP and the ISP.

4 DSL RRQ includes NIDs, INIDs (up to 50% allocation), DSLAMs, Fiber To The Premise (FTTP) Optical Line Terminal (up to 50% allocation), FTTP Optical Network Terminals (up to 50% allocation), second mile transmission equipment and facilities, ILEC broadband aggregation equipment (not including the DSL ASCP), and in the case of naked DSL, the loop cost. Second mile costs are included in the DSL RRQ.

5 Middle mile RRQ should be actual or estimated amounts for the costs of broadband transmission beyond the DSL connection point to the Internet backbone.
Default estimated amounts = $5.34 x broadband lines x 12. Note that $5.34 is based on NECA pool average. Substitute with more accurate company-specific middle mile cost per line.

6 Counts of "Naked DSL" lines should be included in both Access Lines and DSL Lines. Broadband take rate = DSL Lines/Total Access Lines. Broadband take rate cannot exceed 100% by definition.

7 SLC revenues are to be based on currently effective subscriber line charges applied according to current FCC access charge rules.

8 Additional Loop Costs based on broadband take rate have been calculated by comparing the "before" (i.e., current 25% gross allocator) and "after" (i.e., gross allocator = broadband take rate) results of allocator model runs. Additional loop costs are calculated to be the difference in the resulting Common Line RRQ amounts.

9 Broadband RRQ represents last mile, second mile, middle mile and related Internet connection costs for working broadband lines (ADSL and naked DSL) and is calculated as: (CLRRQ x broadband take rate) + Transitioned Additional Loop Costs + Second mile (DSL RRQ)+ Middle Mile costs

10 Local Switching Support, High Cost Loop Support, Interstate Common Line Support, Safety Net Additive and Safety Valve Support are to be calculated or estimated according to current rules.

11 Study area benchmark is comprised of a fixed non-line component starting at $19.25 in year 1 increasing for all study areas to $24.75 in year 8, plus a study area variable line component that is based on the study area's take rate, eg. Line component at 25% take rate = $6.50, at 50% take rate = $13.00, at 75% take rate = $19.50 transitioned over 12 year period. For example, if year 1 take rate is 50%, year 1 variable line component would be $6.50 plus 1/12 of additional $6.50 = $6.50 + $0.54 = $7.04; total year 1 benchmark would be $19.25 + $7.04 = $26.29.

Calculations:

Ln	Description
1	Revenue Requirement = value from Data Inputs
2	Middle mile RRQ = value from Data Inputs
3	Add'l Loop Costs based on Broadband Allocation Factor (study area increase above current 25%); transitional impact over 12 years, i.e., increase loop allocation 1/12 each year.
4a	Broadband transmission component = (Broadband RRQ per broadband line per month - study area benchmark) x broadband lines x 12 to annualize; broadband lines assumed to equal DSL lines
	Broadband RRQ per broadband line (per month) = (last mile + second mile + middle mile) / DSL lines / 12
	Last mile = (CL RRQ x take rate) + Transitioned Additional Loop Costs; Second mile = DSL RRQ; Middle mile = Middle Mile RRQ
	Study area benchmark is calculated using Data Inputs
4b	Current LSS ; limited to total Local Switching revenue requirement
4c	Calculated using voice-only components of CL revenue requirement and SLC revenues = (CL RRQ x (1-broadband take rate)) - (SLC Revenues x (1-broadband take rate))
5	Sum of lines 1 to 3 minus sum of lines 4a to 4c
6	Grandfathered support = difference between the amount of HCL+SNA+SV support and Transitioned Additional Loop Costs (Ln 3) included in Broadband Transmission Component (Ln 4a)

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Filed via ECFS

September 22, 2011

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: ***Connect America Fund*, WC Docket No. 10-90; *A National Broadband Plan for Our Future*, GN Docket No. 09-51; *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135; *High-Cost Universal Service Support*, WC Docket No. 05-337; *Developing* a *Unified Intercarrier Compensation Regime*, CC Docket 01-92; *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45; *Lifeline and Link-Up*, WC Docket No. 03-109**

Dear Ms. Dortch:

The National Exchange Carrier Association (NECA), National Telecommunications Cooperative Association (NTCA), Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), and the Western Telecommunications Alliance (WTA)(collectively, the Rural Associations) hereby submit additional details of the proposals set forth by the Rural Associations in their April 18, 2011, comments in the above-captioned dockets, as modified by the Industry Consensus Letter (RLEC Plan).

At its meeting with Commission staff on September 8, 2011, representatives of the Rural Associations discussed with staff information related to the estimated calculation of the restructure mechanism, including a jurisdictional division of the restructure mechanism and the estimates and assumptions used to make the calculations shown. Rural Association representatives committed to provide further information about certain of the assumptions used in the restructure mechanism calculation, which are attached hereto.

Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter is being filed via ECFS with your office. If you have any questions, please do not hesitate to contact me at (202) 682-2495 or jdupree@neca.org.

Sincerely,

Jeffrey E Dupree

cc: Sharon Gillett
Carol Mattey
Steve Rosenberg
Rebekah Goodheart
Patrick Halley
Al Lewis
Randy Clarke
Victoria Goldberg
Doug Slotten
Kevin King
Dan Ball

Responses to Questions from FCC Meeting - 9/8/2011
RLEC Restructure Mechanism Price-out

($ in millions)

		Phase I		Phase II			Phase III		
Ln	Description	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8
1	**Current Estimates of Restructure Mechanism (RM) in RLEC Plan:**								
	Intrastate RM	$66.6	$132.9	$138.4	$145.3	$152.9	$147.5	$150.5	$153.0
	Interstate RM	$16.9	$32.1	$69.6	$101.3	$129.0	$139.7	$150.1	$158.3
	Total RM	$83.6	$165.0	$208.0	$246.6	$281.9	$287.2	$300.5	$311.3
2	**Add'l SLC Revenue applied to Intrastate Access Rebalancing**	$23.3	$42.7	$61.2	$74.6	$85.1	$91.5	$88.0	$84.0
	Add'l SLC Revenue applied to Interstate Access Rebalancing	$2.0	$3.8	$3.4	$3.7	$3.2	$3.4	$2.2	$1.5
	Total add'l SLC Revenue	$25.3	$46.5	$64.6	$78.3	$88.3	$94.9	$90.1	$85.5
3	**Intrastate Earnings Offset included in RM**	$34.0	$49.7	$52.8	$55.7	$58.3	$57.7	$59.3	$60.6
4	**Total RM (without VoIP impact)**	$114.6	$213.5	$267.2	$310.1	$344.3	$351.8	$365.2	$374.6
5	**Perform earnings test before SLC increases:**								
	% change in RM	-3%	-2%	-4%	-5%	-5%	-5%	-4%	-4%
	% change in additional SLC revenue	-11%	-10%	-5%	-3%	-2%	-2%	-2%	-1%
6	**RM using ABC Plan's benchmark and SLC increases**	$87.4	$171.3	$215.7	$254.1	$287.4	$302.0	$314.7	$324.9

Ln **Notes:**

1 See 9/8/2011 meeting attachments.

2 Intrastate RM in Ln 1 is calculated as the intrastate shortfall minus additional SLC revenue; Interstate RM in Ln 1 is calculated as the interstate shortfall minus additional SLC revenue in excess of the intrastate shortfall.

3 Intrastate RM in Ln 1 is calculated minus an intrastate earnings offset. A company's earnings in excess of a 10% RoR for that year will be used to offset the intrastate component of the RM calculated for that year after the SLC revenue offset has been taken into account.

4 Interstate and Intrastate RM amounts in Ln 1 were calculated using -8% growth in estimated MOU demand. Estimated MOU demand growth would be approximately -13% without the VoIP impact adjustment.

5 Intrastate RM in Ln 1 is calculated minus an intrastate earnings offset after the SLC revenue offset has been taken into account. If the earnings test was performed prior to the SLC revenue offset, the RM and additional SLC revenue amounts will change by the percentages shown.

6 ABC Plan benchmark = $30; SLC increases by $0.50 per year, with a maximum increase of $2.50 by year 5. See 7/29/2011 ABC Plan filing, Attachment 1, p. 12.